

17 July 1964

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WEEKLY SUMMARY

CENTRAL INTELLIGENCE AGENCY OFFICE OF CURRENT INTELLIGENCE

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EXPECTED PRONOUNCEMENTS ON GERMANY AND EUROPEAN SECURITY

Khrushchev's visit to Warsaw on 22 July for the 20th anniversary of Poland's liberation probably will be the occasion for important pronouncements on Germany and on European security.

Although this occasion will call for the usual denunciation of West German "militarists" and reaffirmations of Soviet guarantees to protect Warsaw Pact members from renewed aggression, Khrushchev probably will also advance "constructive" proposals to prevent a resurgence of the German threat and to underscore the desire of the USSR and its allies to strengthen European security and cooperation.

Khrushchev may believe Warsaw will provide a good platform for announcing the withdrawal of some Soviet troops from East Germany. He probably would portray this move, following the withdrawal of over 10,000 US troops from West Germany in recent months, as a further success for his "policy of mutual example."

He may also propose that the four powers which maintain troops in the two German states join in a formal agreement on further force reductions. Since it is unlikely that the Soviets foresee any prospects for such an agreement, an announcement of a unilateral withdrawal of Soviet forces and a renewed bid for a force reduction accord would be aimed primarily at establishing

a more favorable climate for advancing other Soviet objectives in Europe.

High on the list of these related objectives is the defeat of the NATO Multilateral Nuclear Force (MLF) project. Moscow took advantage of the recent activation of the mixed-manned guidedmissile destroyer Biddle to make a new attack on the MLF in 11 July notes to the seven NATO members taking part in this exercise. The notes termed the Biddle a "prologue" to the MLF, and renewed previous warnings that West German access to nuclear weapons through the MLF will greatly increase the danger of thermonuclear war. The notes warned that the USSR and its allies will respond with "appropriate measures" to safeguard their security.

In view of the importance the MLF has come to have in NATO political and strategic affairs and Moscow's apparent belief that this project may miscarry, Khrushchev may feel the time is ripe to renew pressure for a nuclear nondissemination agree-The 11 July Soviet notes ment. reaffirmed Soviet support for "collective measures against the dissemination of nuclear weapons" and Khrushchev may announce some modifications in the Soviet position on such an agreement. Although he undoubtedly recognizes that it would be difficult for the US

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and other NATO members, particularly West Germany, to agree to a nondissemination treaty in the absence of Chinese Communist adherence, he probably would be confident that an ostensibly more forthcoming Soviet attitude would at least help to stimulate Western resistance to MLF.

The Soviet premier may intend to elaborate on the vague proposals to reduce and to limit German armed forces made during Ulbricht's visit to the USSR last month. Khrushchev suggested

June the possibility of a progressive reduction of both nuclear and conventional forces in Germany. He has no illusions that proposals at this late date for limitations on German forces under some form of international control would have any greater chance of winning Western ac-

ceptance than a formal agreement to reduce foreign forces
in Germany. Such proposals,
however, in Moscow's view, would
give an impression of movement
in the USSR's German and European policies, stimulate further resistance and confusion
over the MLF, and arouse old
suspicions, particularly in
Bonn and Paris, over the possibility of Soviet-US understandings at the expense of Western
Europe.

Khrushchev's attempts to refurbish Soviet positions on long-standing East-West issues will be formulated with an eye to preparing the ground for a new cycle of negotiations which Moscow anticipates following the US elections.

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AREA NOTE

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Rumania: Nine days of
"frank" Soviet-Rumanian discussions at the highest level apparently produced no concessions on basic issues from either side. Identical statements issued in Moscow and Bucharest on 14 July claimed only that "a better mutual understanding" resulted from the "useful exchange of views" on a broad range of subjects, including bilateral state

relations, party ties, bloc economic problems, and the Sino-Soviet dispute. The tone of the statements implies, however, that both sides feel it in their best interest to avoid worsening relations by further steps such as public polemics, which ceased before the Rumanian delegation left for Moscow.

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NEW SOVIET INITIATIVE ON UN PEACE-KEEPING OPERATIONS

The USSR's 7 July proposal for a UN peace-keeping force is probably aimed at preventing action at the UN General Assembly next fall on the question of payment of Soviet arrears for UN peace-keeping operations in the Middle East and the Congo.

Moscow is seeking to forestall a showdown on the application of Article 19 of the UN
Charter, which deprives a member
of its vote in the General Assembly if its financial arrears
exceed its dues for two preceding years. According to US
calculations, the minimum payment required before the Assembly meets is about \$10.2 million
for the USSR and seven other
Soviet bloc members. The USSR
owes most of this amount.

The USSR formally asserted last March that it would not restudy its refusal to pay for the Congo and Middle East operations and warned that if the US forces the issue, the USSR "may be obliged to reconsider its attitude toward UN activity." During his recent visit to Scandinavia, Khrushchev told the Danish premier that the Soviets would not pay and that "if they want to throw us out of the UN, let them go ahead." The Soviets probably expect such statements to generate strong pressures on the US from other members to work out a compromise solution.

Although Moscow is trying to convey the impression of some "give" in its position, the memorandum restates Moscow's long-standing position that all UN peace-keeping functions must be under the strict control of the UN Security Council. This would prevent action under the 1950 "Uniting for Peace Resolution" which empowered the General Assembly to authorize peace-keeping operations when the Security Council is hamstrung by the veto.

The statement of the USSR's willingness to "shoulder its proper share" of the expenses for a UN force probably reflects a desire to settle the arrears problem without losing face.

The memorandum offers no solution to the UN financial impasse

Further information on Soviet intentions probably will emerge from U Thant's talks in Moscow at the end of this month.

Reaction to the memorandum among UN members—particularly the 21 members of the working group established to find a solution to the UN's financial

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problems--has been generally one of open-mindedness and the feeling that "we cannot be totally negative on the Soviet approach." The majority of UN

members are anxious to avoid a direct US-USSR confrontation 25X1 on the automatic application of Article 19 at the coming General Assembly.

PERSONNEL CHANGES IN THE USSR

The appointment of Anastas Mikoyan as chairman of the Presidium of the Supreme Soviet is apparently intended primarily to give his predecessor, Leonid Brezhnev, a new opportunity to strengthen his political hand in anticipation of the succession problem.

Freed from the largely ceremonial duties of titular head of state, Brezhnev will probably be able to expand his authority in the party and increase his chances of developing the loyalties necessary for eventually achieving a commanding lead in personal power. This move, however, in no way rules out the likelihood of a fight for the top job after Khrushchev leaves the scene. In contrast to Khrushchev's designation in 1961 of Frol Kozlov as his successor, the present change is probably not meant to signify that Brezhnev has attained this position.

Brezhnev and Nikolay Podgorny have been leading contenders for the number-two position in the hierarchy since they were brought into the party's leading executive body, the secretariat, in June 1963 following the incapacitating illness of Kozlov. Both have been members of the party's top policymaking organ, the presidium, for several years. Brezhnev is now on a par with Podgorny in terms of having a full-time opportunity to develop his political strength.

Brezhev, almost 58 years old, is probably in general agreement with most of Khrushchev's policies. He is believed to be reasonably able and in fair health.

Mikoyan's special unofficial status as senior adviser to Khrushchev will probably not be impaired by his elevation to the chairmanship of the Supreme Soviet Presidium. He is likely, however, to focus his attention, even more than in the recent past, on foreign political and economic affairs.

The Supreme Soviet job seems to be ideally suited for Mikoyan because the duties can be readily tailored to the capabilities of the incumbent. Nearing 69, Mikoyan was out of action for several months last year because of illness.

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KHRUSHCHEV SPEECH TO THE SUPREME SOVIET

Khrushchev's major address to the Supreme Soviet outlines measures that will raise the standard of living of the most neglected groups in the population.

Wage increases totaling \$3.7 billion annually are scheduled for 18 million workers in education, medicine, public services, retail trade, restaurants, and local government. The average increment of 21 percent approximates increases granted over the past five years to the 50 million workers employed in industry, construction, transportation, and the state farms. Pay boosts for the service jobs were originally slated for 1962 but were delayed by economic difficulties and the continuing low priority accorded these Enabling legislation groups. is expected during this session, but some of the raises will not be effective until the end of 1965.

Khrushchev also proposed a systematic pension plan for collective farm workers, the one labor group not covered by the state pension system. need to replace the current optional system has long been recognized, but the weak financial condition of many farms has precluded action. When Khrushchev first mentioned the new plan in February, he indicated that the funding would be the responsibility of the farms themselves. He has now conceded that assistance from the state will be necessary, but rising

contributions from the collective farmers are expected to reduce the state's share from 75 percent this year to about 40 percent in 1965 and even less in subsequent years. The relatively high proportion of elderly workers in the collective farm labor force is reflected by the fact that about 18 percent of the total will be eligible for pensions when the system is introduced next January.

Contrary to previous expectations, Khrushchev said nothing about the long overdue introduction of the 5-day, 40-hour work week to replace the present 41 hours spread over 6 days. The monthly minimum wage for all service employees was reaffirmed as 40-45 rubles (\$45-\$50) by the end of next year. This date is in accordance with the present 1964-65 plan, but three years later than the one set in the Seven-Year Plan.

Another point of interest in the speech is Khrushchev's assertion that grain reserves will be built up to equal half or even the total annual requirement of the country. The first figure--approximately 25 million tons--could be attained after several good harvests, but accumulation of a full year's supply could only be a goal for the indefinite future. He named no date when repeating his standard 25X1 claim that the USSR will overtake the US in peaceful economic competition.

SOVIET BLOC TRADE WITH INDIA RISES SHARPLY

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Soviet bloc trade with India was up sharply in the first three months of 1964, roughly 35 percent over the corresponding period last year. This trade made up about 11 percent of India's total foreign commerce in 1963 and accounted for a large part of India's foreign trade growth in the last few years. New trade agreements and aid deliveries plus repayment of roughly \$55 million in debts to the USSR will raise the total again this year.

The USSR and India have made a considerable effort to expand the volume as well as the variety of commodities traded. According to the five-year agreement which went into effect in January, trade is scheduled to total about \$360 million this year and to reach about \$440 million by 1966, roughly twice the 1963 level. The Soviets will export a variety of industrial products and take agricultural and light manufactured products in ex-

AREA NOTE

USSR: Moscow has ordered more than \$65 million worth of commercial vessels in the West in the past six months, in spite of the scarcity of foreign exchange and the difficulties encountered in financing proposed purchases of chemical equipment. This emphasizes the importance the USSR attaches to expanding its maritime and fishing fleets.

Soviet officials have ordered four new refrigerator ships from Denmark, six secondhand ones from Sweden and three from West Germany, Dutch and British dredgers, and several Japanese fish-processing ships.

New Agreements also have been concluded this year with Communist

change. For the first time, they will buy engineering, chemical, and plastic products, items India has pushed to diversify its exports.

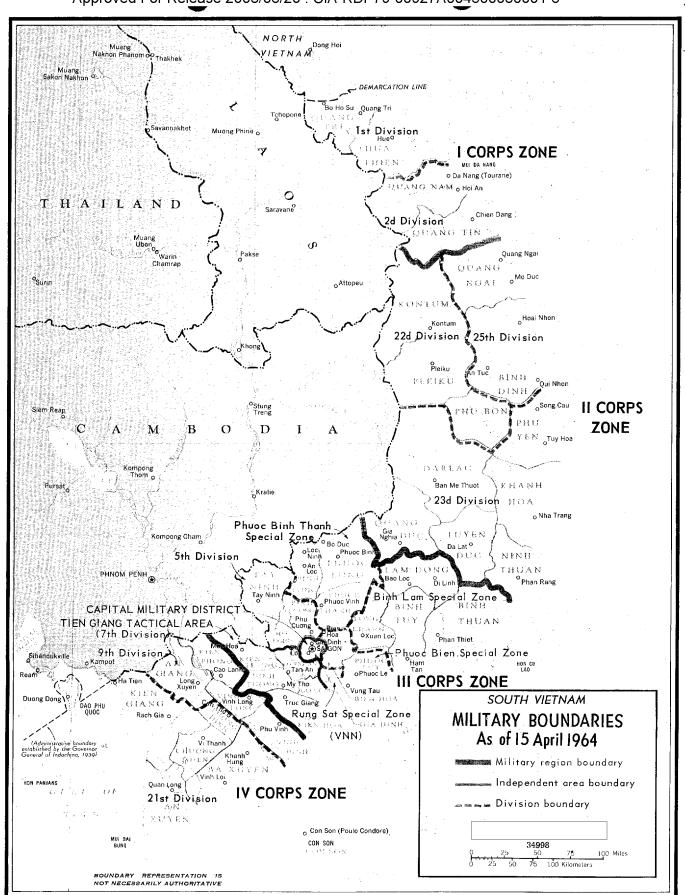
Another recent agreement calls for continued Soviet deliveries of petroleum products. India has received over two million tons since 1960. The 750,000 tons it bought last year made up about 25 percent of its imports of petroleum products and this year's imports will probably be even higher.

Eastern European trade with India, which totaled over \$200 million last year, also registered a sharp increase in the first three months—up almost 40 percent. A higher level of trade will probably continue, as Poland, Czechoslovakia, Bulgaria, and Hungary 25X1 have concluded long-term trade agreements in the last year similar to the USSR-India deal.

countries. Poland indicated in April that between 1966 and 1970 it would provide the USSR with 175 vessels of various types, worth about \$600 million. During the same period Hungary will deliver 38 dry-cargo vessels; Belgrade, 25 vessels worth \$120 million by 1966. Already under construction are 12,000-deadweight-ton (DWT) cargo ships and 21,000-DWT tankers.

Last year imports of almost 100 ships worth over \$500 million accounted for over 55 percent of the additions to the Soviet commercial fleet. Purchases from non-Communist countries, totaling just under \$190 million, included 11 tankers, 21 drycargo ships, and 12 fishing vessels.

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Asia-Africa

HIGH RATE OF COMMUNIST ACTIVITY IN SOUTH VIETNAM

The unprecedented high rate of Viet Cong military activity since the beginning of this month continues. In addition to intensified small-scale attacks and terrorism, the Communists have mounted seven battalion-size attacks since 1 July.

Viet Cong large-unit activity has spread from the north and central provinces to the south. On 11 July an estimated Viet Cong battalion ambushed a relief force in Chuong Thien Province. Two days later, in Binh Long Province, two separate ranger units were ambushed within a four-hour period by Viet Cong forces estimated at battalion strength. The current high rate of Viet Cong activity may continue at least through the 20 July anniversary of the 1954 Geneva Accords.

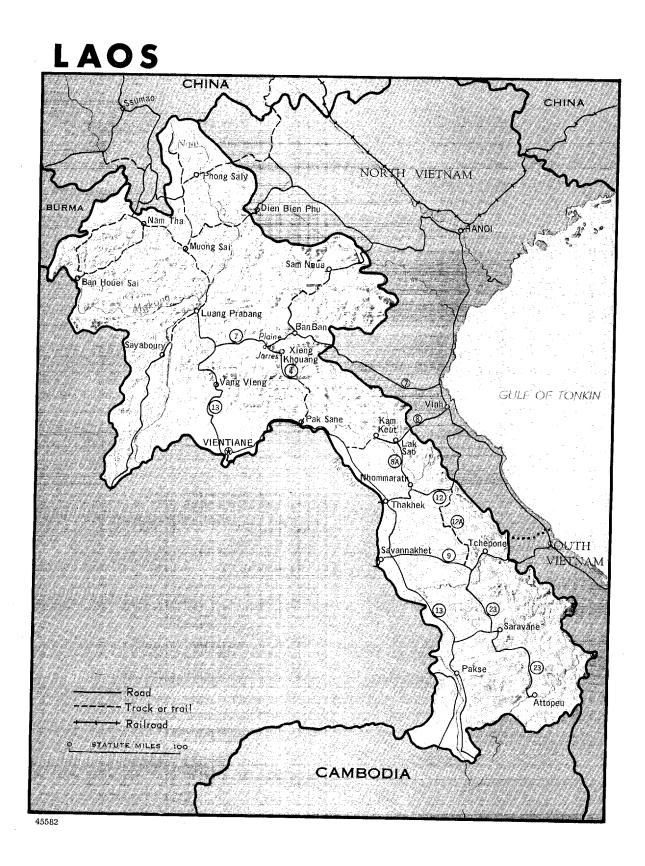
A significant reinforcement of Viet Cong strength in
the four northernmost provinces
in the I Corps zone apparently
preceded the recent upsurge in
attacks in that area. During
the past few months there have
been a number of reports that
new Viet Cong units had been
found in all four provinces.
US military authorities in South

Vietnam increased their Viet Cong order of battle holdings by 13 percent in Quang Nam and Quang Tin during June.

Regulars from the North Vietnamese Army (PAVN) evidently are among the new infiltrators. Interrogation of captured Communist prisoners has established that during recent months composite groups of native North Vietnamese "volunteers" drawn from various elements of the PAVN have moved down into the northern sector. Two 180-man groups of infiltrators have evidently been split into tenman teams and distributed among various Viet Cong units.

It is possible that regular PAVN units are operating in the Quang Tri - Thua Thien province area in support of the Viet Cong. South Vietnamese officers claim that such units participated in the Nam Dong attack on 5-6 July. These units could be introduced from and withdrawn to safe havens in Laos and North Vietnam. Regular PAVN elements have long operated in this manner in support of the Pathet Lao in Laos. There is, however, no confirmation of their presence.

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Asia-Africa

MILITARY AND POLITICAL MANEUVERING IN LAOS

The military situation in Laos has been marked by a continued lull in ground activity. There are still reports, however, that both sides are now deploying their forces in preparation for renewed attacks.

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The Communists have charged that rightist and neutralist forces-

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-are preparing moves west of the Plaine des Jarres. The rightists, for their part, remained concerned over evidence of Pathet Lao activity near Muong Soui as well as farther south in the area east of Thakhek.

The Lao Air Force is continuing attacks against Pathet Lao positions on the Plaine des Jarres and to the east along Route 7, the key supply artery from North Vietnam.

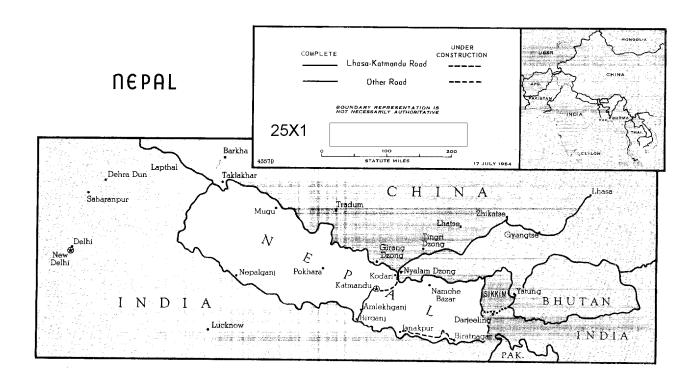
Communist propaganda still charges that these attacks have

caused scores of civilian casualties, heavy losses in livestock, and extensive damage to civilian dwellings and Buddhist temples. Although the Pathet Lao claim to have shot down numerous T-28 aircraft, in fact only one has been lost to enemy fire. It was downed on 14 July east of Ban Ban while engaged in a lowlevel attack mission.

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Asia-Africa

NEPAL CONTINUES TO BROADEN FOREIGN TIES

King Mahendra is broadening Nepal's foreign ties, while
still maintaining his country's
ultimate reliance on India and
the US. Both account for the
bulk of Nepal's economic and military assistance. Some 90 percent
of Nepal's trade is with India,
but Nepal continues to develop
its modest economic ties with
both of India's major adversaries, Communist China and
Pakistan.

Most of China's \$43.4 million in pledged aid--nearly a quarter of Nepal's total--is going into roadbuilding. The major project is a 65-mile road from Katmandu to Kodari, scheduled to be jeepable by the end of this year. It will facilitate grain exports to China from Nepal's food-surplus southern lowlands, and will also form the final motorable link in the most direct route from Tibet to India's populous Ganges plain.

The Chinese have begun surveying a 100-mile section of Mahendra's cherished East-West highway which, when completed, will permit the transfer of food and manufactured goods between the cities of Janakpur and Biratnagar without transshipment through India. Other Chinese aid includes a token amount of defense-related materials--cloth for uniforms, 20 two-way radio sets, and three "Harvester" (AN-2) biplanes.

Last year Pakistan became the third country--after India and Communist China -- to sign a trade agreement with Nepal. lations between the two countries had been almost nonexistent until two or three years ago. A modest amount of trade now is conducted with Pakistan. despite occasional Indian obstruction. The two countries are currently negotiating to establish a microwave arrangement that may facilitate communication between Pakistan's two wings via Nepal, and give Nepal a link, other than through India, to the outside world. Pakistan also agreed last month to train 109 Nepalese engineers. pilots, and mechanics.

In domestic affairs, Mahendra has recently reorganized his government to inhibit factional bickering and to stem the rise of possible rivals. He has slightly downgraded Tulsi Giri. the chairman of his council of ministers. Two of the four portfolios Giri holds--home affairs and local government-have been taken from him. He has also fired Rishikesh Shaha, the chairman of the standing committee of the King's hand-picked upper Shaha had been agitating for greater public participation in Nepal's paternalistic government./

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Asia-Africa

POLITICAL DIFFERENCES SHARPEN IN IRAQ

Political differences that were partially submerged in Iraq following last November's army coup against the Baath regime are again bubbling to the surface and religious divisions that have continually plagued the country are now perhaps more profound than at any time in recent years.

Since November, President Arif has mainatined his paramount position by playing off pro- and anti-Nasir elements within his government against one another. His continuing and almost irrational fear of a Baathist coup or assassination attempt, however, has led him in recent weeks to lean more and more heavily on the Baath's chief rival in the Arab world--Nasir and his supporters. At the conclusion of his extended visit to Egypt last May, Arif signed an agreement that was proclaimed as the first step toward the eventual union of the two states. He has since been preoccupied with establishing a political front modeled on Nasir's Socialist Union. Military cooperation with Egypt has also increased.

Although both the "unity" agreement and the new political front--formally established on 12 July--are merely paper creations with little real life, they have drawn political battle lines tighter and left Arif little room

to maneuver. The relatively small group of hard-core Iraqi Nasirists still distrust Arif because they feel he is moving too slowly toward full union with Egypt, while the opponents of union have become increasingly alarmed by the signs of growing cooperation with Nasir.

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Talk of union with Egypt has also alarmed Iraq's large ethnic and religious minorities. perennially rebellious Kurds fear they would be swamped if Iraq united with populous and wholly Arab Egypt, while the large restive Shia Moslem religious community fears being overwhelmed in a greater Sunni (orthodox) Moslem state. The Shias, who play a large part in Iraqi commerce, will also be antagonized by this week's decrees nationalizing major segments of the Iraqi economy.

Opponents of union with Egypt, who are likely to discern in the nationalization measures an attempt to align the Iraqi economy more closely with that of Egypt, will be further alarmed by the establishment this week of an Egyptian-Yemeni political and economic coordinating committee, and by Nasir's announcement that a similar agreement with Algeria is in the offing.

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TSHOMBE TRIES TO CONSOLIDATE IN CONGO

Premier Moise Tshombe, determined to run a one-man show, is attempting to build up his popularity while trying to contain the spreading rebellions in the eastern Congo.

On 10 July, the day after he was named premier, Tshombé lifted the curfew in Leopold-ville, removed the thoroughly disliked special commissioner from Stanleyville, and ordered the release of all political prisoners. Many prisoners, including left-wing leader Antoine Gizenga and persons accused of fomenting rebellions in Kivu and Kwilu, already have been freed.

Despite a generally popular reaction to these moves, Tshombe's effort to dominate the government already is evoking concern among leaders of various political factions displeased at being excluded.

Tshombé continues to have the allegiance of General Mobutu, head of the Congolese National Army (ANC).

The apparently uncoordinated rebellions in Kivu and North Katanga are spreading rapidly westward, and causing panic among ANC detachments in both areas. The insurgents do not appear to

be under effective or cohesive leadership, and their successes are apparently due more to ANC ineptitude than to their own prowess.

Tshombé appears to be taking special interest in the rebellion in Katanga, probably because of his desire to maintain a safe haven there. His righthand man, Minister of the Interior Godefroid Munongo, has taken charge of antirebel operations in Katanga.

Whether Munongo will use Tshombe's army of gendarmes in Angola is not clear.

Tshombé has decided not to attend the African heads-of-state meeting opening in Cairo on 17 July because of the open opposition to him by many African leaders. Some of them provided troops used by the UN to put down the Katangan secession. Although he wishes to improve ties with other African states, he may retaliate for this rebuff.

Some of the African leaders' criticism stems from Tshombé's reported opposition to providing sanctuary to Holden Roberto's Angolan rebel movement. Internal and external pressures probably 25X1 will force him to give at least lip service to the Angolan rebel movement.

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Asia-Africa

AREA NOTE

Burma: General Ne Win and his ruling Revolutionary Council may be reconsidering moderating the regime's radical internal policies and its extreme anti-Western posture. No dramatic shift in policies is likely. but mounting economic difficulties and recent demonstrations of US firmness in Southeast Asia have reportedly made Ne Win more receptive to moderate advice. Extreme leftist council members are fighting against any change in Burma's present course.

Insurgency, meanwhile, is still expanding in ethnic minor-ity areas. Padaung and Pa-O tribesmen in the previously secure Kayah State and southern Shan State, have rebelled against Rangoon and recently have in-

flicted heavy casualties on Burmese Army outposts. Ne Win recently indicated that he gives low priority to quelling ethnic insurgency and at present intends only a holding operation in those areas.

At the end of the hastily arranged meeting between Ne Win and Chou En-lai last week end in Rangoon, the Burmese joined in calling for a 14-nation "Ge-neva" conference on Laos. They did not condemn US involvement in Southeast Asia or offer Rangoon as a site for the proposed conference, as the Chinese probably requested. The two leaders agreed to speed up the implementation of projects under the \$84-million Chinese credit extended in 1961.

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| | POPULATION (est. in millions) | | UAL FRENCH AID millions of US dollars) Bilateral Nonmilitary** | FRENCH TROOPS Now Present |
|---------------------------|----------------------------------|-----|--|------------------------------|
| Cameroon | 4.3 | 7 | 50.0 | 1,000 |
| Central African Republic | 1.3 | 5 | 11.0 | 1,300 |
| Chad | 3.0 | 11 | 20.0 | 3,600 |
| Congo (Brazzaville) | .8 | 4 | 9.0 | 1,700 |
| Dahomey | 2.1 | 9 | 6.0 | 825 |
| Gabon | .5 | 1 | 9,2 | 300 |
| Ivory Coast | 3.5 | 9 | 41.0 | 1.300 |
| Malagasy Republic | 5.9 | 38 | 55.5 | 7.000 |
| Mauritania | .8 | 10 | 8.0 | 1,600 |
| Niger | 3.3 | 7 | 8.0 | 1,400 |
| Senegal | 3.2 | 20 | 35.0 | 5,900 |
| Togo | 1.5 | 1 | 5.5 | *** |
| Upper Volta | 4.5 | 2 | 18.8 | 50 |
| Estimated cost of maintai | ning | 10 | 그 기가 있는 것이 가득 | |
| French Air Force Perso | | | 발 축유 | |
| in this area. | AL 34.7 | 134 | 277.0 | 25,975 |

^{*} Former French territories in which no troops are stationed.

^{**} These figures represent estimates of aid supplied through the official agency, Fonds d Aide et de Cooperation (FAC). They probably are appreciably lower than the value of the total public and private nonmilitary aid effort, however, because of the considerable amount of indirect assistance provided outside official channels.

^{***} Small administrative detachment for military aid.

Europe

FRENCH TROOP WITHDRAWALS FROM AFRICA

France is about to start a phased withdrawal of most of its remaining troops in sub-Saharan Africa, probably to be completed by 1967. Paris feels the need to economize, to streamline its military establishment, and to remove from the African states a potential source of embarrassment should pressures against the present French-supported governments become more pronounced.

According to the local French ambassadors, all French troops will be withdrawn from the Congo (Brazzaville) by the end of the year, and all but "a small contingent of army and air units" from Chad by October 1965. The French secretary of state for foreign affairs advised Mauritania that France wished to reduce its forces there from 1,600 to "400 or 600" by early 1965. French military sources in Cameroon say that army personnel there will be reduced by nearly a fourth during 1964, with future reductions leading to a "final phase-out" in 1967.

The French ambassador in Libreville believes that Gabon, where French troops intervened in February to restore President Mba to power, is a "special case." Here no sizable reduction in force is immediately scheduled. It also seems unlikely that there will be any significant withdrawal from Dakar of Madagascar, two other areas of special French interest.

African chiefs of state were reassured France intends to honor its defense commitments. The

French plan to rely principally upon the mobile Intervention Force, stationed in southern France. Staging areas for this force will probably be set up at Bouar in the Central African Republic and at Fort Lamy in Chad.

The withdrawals will have considerable economic and political impact in the former French African states. In addition to the loss of the direct economic benefits which accrue from the presence of the 26,000 troops and their dependents, there is also the possibility that many of the French businessmen--who control virtually all commercial life in these states--will panic and leave. As a result, new opportunities may develop for the Communist bloc to extend its presence in Africa through offers of trade and aid.

Political instability, already endemic in the area, can also be expected to increase when the African leaders are forced to rely primarily on their own small and generally unreliable armies for internal security. The problem is likely to be aggravated by the large number of African enlisted men who are to be discharged from the French services. The precedent in several newly independent African states suggests that these troops may become a source of organized discontent and agitation.

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THE KENNEDY ROUND TARIFF NEGOTIATIONS

Europe

Pessimism is growing in Europe over the outlook for the Kennedy Round. The GATT negotiations in Geneva have made little or no progress in recent weeks, and the summer holiday season will further delay the talks. There is, consequently, growing doubt that fall deadlines for completing the preliminaries will be met. It is also felt that the standstill could threaten the entire operation.

There have been numerous allegations lately in the press as well as in official circles that the US is willing to let the trade talks slide until after November and, because of the pressures of industry, may be losing interest in trade liberalization altogether. These stories may partly reflect concern over a US request for a two-month extension of one of the deadlines--submission of lists of exceptions from tariff They are, however, almost certainly being used by those who seek an excuse to obstruct the reduction of trade barriers.

The main difficulties are still the internal EEC deadlock over agricultural policy--i.e., the question of grain price unification -- and the inability of the EEC and the US to reach an agreement on how to negotiate on farm products. The EEC Commission has adamantly insisted that its negotiating plan for farm products is the only one consistent with the EEC common agricultural policy and that a settlement of the grain price question is a prerequisite for both. The US regards the EEC

plan as too inflexible and insists that negotiation on freer trade in industrial products cannot proceed without commitments for freer trade on farm items.

Barring major shifts in positions, prospects for any break in the EEC impasse are poor. Erhard recently reiterated that he would not permit German intransigence on the grain price issue to result in the collapse of the Kennedy Round, but he apparently feels under no strong outside pressure to run the domestic political risks involved in settling the problem. German farmers nave interpreted US statements to mean that the US is uninterested in the grain price question, and they are apparently counting on the French not to provoke another crisis on the issue at this time. probably believes that it can somehow obtain improved access to the German market for French grains--which would probably be at the expense of outside suppliers--even without a grain price settlement.

In recent talks with US officials, EEC negotiators have agreed to press in Brussels for some modification of their mandate on several points of importance to the US. Higher EEC officials, however, have repeatedly insisted on the practical impossibility for the EEC to change its policy position.

The 29-30 July meeting of the Council of Ministers will probably be the last chance before autumn for these questions to be resolved.

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Europe

ITALIAN GOVERNMENT CRISIS STILL UNRESOLVED

Premier-designate Aldo
Moro of the Christian Democratic
Party is apparently close to a
decision on whether an accord
can be reached for reconstituting a center-left government.
An agreement will not guarantee
a viable coalition, however, as
the allocation of cabinet seats
among the four prospective partners presents many thorny problems.

The questions of state aid to private schools and urban planning are blocking final agreement on a program.

however, the Nenni Socialists have made an important concession to the Christian Democrats by agreeing to convene a special party congress to modify their policy which permits Socialists to join local administrations in coalition with the Communists. The Christian Democrats have been insisting that the Socialists compel their adherents to participate only in those local administrations whose make-up parallels that of the national coalition.

Whatever the complexion of the next government--four-party coalition or a Christian Democratic caretaker administration-- it may soon be confronted with intensified labor agitation. The curbs on credit, which have been steadily tightened since last fall to combat inflation, have been widely blamed for the recent flurry of dismissals, layoffs and reduced working hours in industry.

Non-Communist labor circles fear that there may be serious unemployment by October, especially in construction and metal processing. About 10 percent of the one million construction workers are already unemployed. Metal processing—which employs even more people—has not yet been hard hit, but may soon feel the pinch of a recent sharp decrease in new orders for machine tools and other products.

Widespread unemployment at the time of the local elections scheduled for November would favor the Communists at the polls. Even before that time, the Communists will probably use the General Labor Confederation, which they dominate, to mount new strikes as a means of obstructing the government's effort to implement stabilization measures.

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Western Hemisphere

RELATIONS STRAINED BETWEEN BOLIVIA AND CHILE

Repercussions of the perennially strained relations between Bolivia and Chile have been felt at the UN, and could crop up again next week in the OAS. The trouble fundamentally stems from Bolivia's aggressive diplomatic efforts to regain its outlet to the sea, lost to Chile in the War of the Pacific (1879-1883).

Bolivia's latest campaign, begun before the presidential election last May, was stimulated by a letter from the Indian UN ambassador expressing sympathy for Bolivia's landlocked status. The Bolivian cabinet then began considering public demands for revision of the 1904 treaty which ended the long truce following the War of the Pacific and established Bolivian transit rights through Chilean territory.

Frustrated in its earlier efforts to obtain OAS support for demands against Chile, Bolivia has been actively seeking Afro-Asian sympathy for an eventual presentation of the problem at the UN. A consensus exists within the Latin American group there, however, that this would provoke an acrimonious debate

that might undermine and discredit the group as a force at the UN. The group feels that the matter would be handled better by the OAS.

There has, nonetheless, already been one skirmish over the issue at the UN. Bolivian UN Ambassador Castrillo, occupying a Latin American seat in the Security Council, recently brought up his country's grievance during the debate on Cyprus. He warned that the problem already "seriously threatened the peace of America," and might be presented to the Security Council.

Chilean UN Ambassador Martinez Sotomayor responded by circulating a paper criticizing Castrillo for using his position in the Security Council to attack Chile. The argument was carried to a meeting of the Latin American group where Castrillo delivered a vitriolic attack on Chile.

Tempers may be cooling, however, and there are indications that Bolivia may have, at least temporarily, given up its intention to raise the matter formally at the UN.

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AREA NOTE

Argentina: The Peronistdominated General Confederation
of Labor (CGT) has decided to
renew its antigovernment campaign.
This will feature mass meetings,
marches on provincial capitals,
and perhaps a new round of plant
seizures. The CGT avoided an-

nouncing a schedule--as it did in the May-June demonstrations-thereby hinting that it may try to keep up indefinitely its pressure on the government for political and economic concessions.

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Western Hemisphere

GROWING OPPOSITION TO THE BRAZILIAN GOVERNMENT

Rightist criticism of some of Castello Branco's programs is becoming sharper. There are also indications that extreme leftists sympathetic to the former Goulart regime are planning violence against the government. Neither extreme appears strong enough now to pose a significant threat to the administration, but their continued growth could slow down implementation of the government's reform programs.

Rightist opposition centers on the administration's proposals for agrarian reform, revision of the presidential election system, and granting illiterates the right to vote in municipal elections. The socalled "hard-line" element in the military, already disgruntled over what it considers the government's failure to remove enough undesirable politicians from public office, is perhaps the most influential group opposing the administration. Wealthy landowners are also prominent among those hostile to the draft agrarian reform program.

Presidential candidate Carlos Lacerda has moved away from his early close identification with the Castello Branco government and is now leading

the opposition to the legislative proposal to extend Castello Branco's term of office. Lacerda appears convinced that this proposal -- as well as another requiring that a president be elected by Congress unless one candidate received a majority of the popular vote--threatens his presidential chances. He has so far refrained from attacking Castello Branco personally, but he has emphatically recommended that the government drop its political reform proposals for now and find a way to deal with the pressing problem of inflation.

| Communist and other extreme leftist elements may also be ready to test the government by |
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| inciting disturbances. |
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